HOUSING MARKET INFORMATION

# HOUSING MARKET OUTLOOK
## St. John's CMA

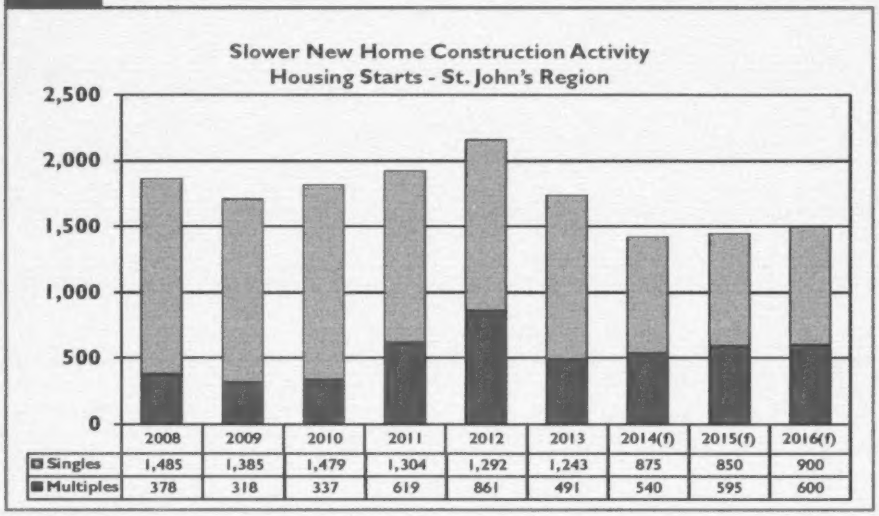
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2014

## Highlights

- New home construction activity will slow over forecast period
- Economic and demographic conditions remain supportive of housing market
- Resale market and prices will remain stable
- Rental market expected to grow through 2016

Figure 1




| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014(f) | 2015(f) | 2016(f) |
|---|---|---|---|---|---|---|---|---|---|
| Singles | 1,485 | 1,385 | 1,479 | 1,304 | 1,292 | 1,243 | 875 | 850 | 900 |
| Multiples | 378 | 318 | 337 | 619 | 861 | 491 | 540 | 595 | 600 |

Source and Forecast: CMHC

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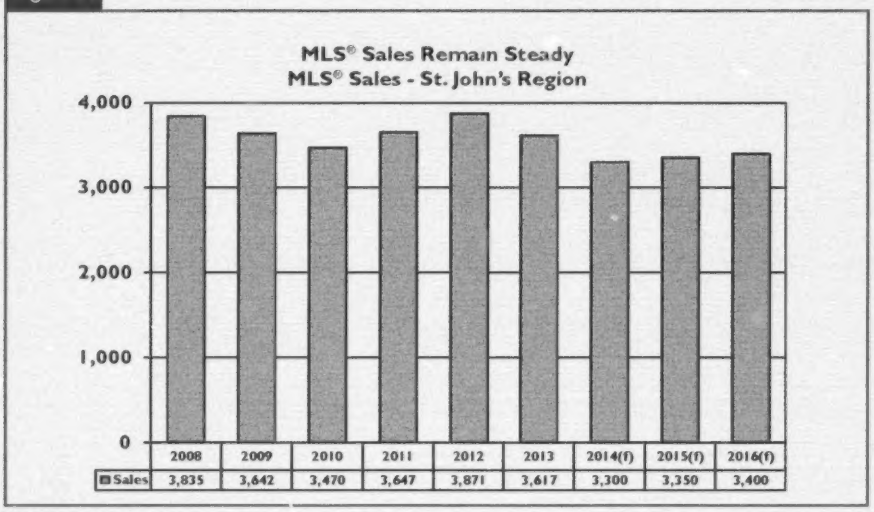
Figure 2




Source: CREA; Forecast: CMHC
MLS® is a registered trademark of the Canadian Real Estate Association (CREA)
Note: Eastern Region (St. John's) MLS® data unavailable prior to 2008 calendar year

## New Home Construction Activity to Slow

Driven by robust economic and household income growth, new homebuyers continue to prefer high-end custom homes throughout the St. John's region. Accordingly, the average price of a newly built home is considerably higher than the average existing home MLS® price, with the difference now in excess of $100,000. Despite a lower number of housing starts over the forecast period, the strong St. John's economy will remain supportive of new home construction, though at a reduced pace. The economic growth of recent years continues to generate population and employment growth and push up average earnings. That being said, elevated inventory levels will see price growth slow over the forecast period to levels near the inflation rate. The average single-detached price for a new home will be around the $400,000 level this year, $405,000 in 2015 and $410,000 in 2016.

The new home construction market has slowed and is expected to continue to taper through 2016. Elevated new home inventory levels will cause single-detached housing starts to end this year down approximately 30 per cent to 875 units and decline slightly to 850 units in 2015, before rebounding to 900 units in 2016. The current inventory of newly built single-detached homes for sale could have a larger than expected negative impact on housing starts for 2015 and 2016, if they are not absorbed at a rate that keeps the current level of inventory stable.

Fewer condo starts are expected over the forecast period due to a rise in the number of new unabsorbed units. This is the result of record construction activity in the condominium market during the last two years.

The reduction in single-detached housing starts, however, will be partially offset by higher multi-unit and basement apartment construction activity. It is expected that approximately 540 multiple units will start this year and 595 units in 2015, with 600 units in 2016. Expect 1,415 total housing starts for the St. John's area this year, representing an 18 per cent decline, with 1,445 and 1,500 starts in 2015 and 2016, respectively.

The long standing trend of a basement apartment addition within the bungalow home style market is expected to continue over the forecast period. Some homebuyers have a need for this housing option because it allows for adding an income-generating apartment unit to offset mortgage carrying costs. With buyers showing preferences for these two-apartment homes, demand for row and semi-detached homes will remain low over the forecast period.

Favourable economic and demographic conditions have been the key drivers of increased construction activity in the local condo market in recent years. This will continue to stimulate demand throughout the St. John's area in the coming years. The largest buyer segment – age 55 plus – of prospective condo buyers continue to prefer to move from their homes to a condo without taking on additional mortgage debt. Rapidly rising prices within the condo market has made it more challenging for buyers to live mortgage free. As a result, lower-priced condo development activity is expected to rise over the forecast period, while higher-priced condo development should slow considerably as demand continues to wane.

## MLS® Sales and Price will Remain Stable

The St. John's area MLS® market is expected to moderate over the forecast period. MLS® sales should

reach 3,300 units this year, down from 3,617 sales in 2013. Expect 3,350 unit sales in 2015 and 3,400 in 2016. With new home sales accounting for about one-third of total MLS® sales, new home construction activity, though lower, will remain a big contributor to total MLS® sales over the forecast period. Despite a stable price environment, sales have trended down and inventory levels have been growing since 2012. As a result of these inventory levels, sales activity is expected to decline approximately nine per cent this year and be flat in 2015 and 2016. Robust new home construction activity throughout the St. John's region has been one of the main drivers of average MLS® residential price growth over the past several years. With higher inventory in the local resale market and lower demand for resale housing, the forecast is for slower price growth through 2016. After six years of very strong growth, the average MLS® house price is forecast to move in line with the rate of inflation to $313,000 this year and reach $317,500 in 2015 and $322,000 by 2016, as the previous accelerated growth cycle normalizes. The move-up or executive homebuyer segment, with expanding families and rising incomes, continue to purchase above-average priced two-storey and custom homes. This trend will support price growth, while below-to-average-priced bungalows, row and semi-detached homes will continue to appeal to the first-time homebuyer segment and modest income households.

## Rental Market Expected to Grow

Continued demand for rental units, paired with the introduction of newly completed units in the local apartment universe will provide growth within the rental market over the forecast period. Accordingly, the average rent and the vacancy rate are expected to rise.

Stable economic conditions will continue to be supportive of the in-migration of workers to the St. John's region. House prices may discourage some from accessing homeownership as they could perceive renting as a more affordable alternative. Low tuition fees at Memorial University and local colleges also continue to attract both local and international students, who are likely to rent within the area as well, supporting rental demand.

New investments in developing purpose built multi-unit residential rental projects is expected to continue over the forecast period. Accordingly, the vacancy rate for surveyed structures containing three or more rental units (two-apartment homes excluded) is expected to increase to 3.5 per cent this year, 3.8 per cent in 2015 and 3.9 per cent in 2016. Despite the slight increases, vacancy rates are historically low and as such, steady demand paired with new expensive units being added to the universe will continue to drive average rents higher. Expect the average two-bedroom monthly rent to increase to $900 by the end of this year, $930 in 2015 and $955 in 2016.

## Economic Trends

Newfoundland and Labrador (NL) will remain the Atlantic Canada leader in economic growth across the forecast period of 2014 to 2016, with GDP expected to reach one per cent in 2014, rise to 1.5 per cent in 2015 and increase further to 1.8 per cent by 2016. The province's economic future will be supported by projects focused on both energy and resources. This trend will continue to have a positive impact on the St. John's economy because the majority of the oil industry's economic activities have a direct impact on the capital city. Economic growth will also be supported by consumer spending and continued private sector energy and resource investment activity. Recent news about new oil fields outside of the existing production areas will help support optimism and investment. These new projects will stimulate economic activity over the next several years throughout the province and the St. John's region.

The province's labour market conditions have softened this year after four years of strong steady increases in both employment and labour force. Provincial employment growth is forecast to decline by 1.5 per cent this year, with a rebound of 0.8 per cent growth in 2015 and one per cent in 2016, as the province transitions to providing new manufacturing capacity within the resource sector. Labour force growth will also decline by 1.2 per cent this year, resulting in a rise in the unemployment rate to 11.6 per cent. The provincial unemployment rate will remain stable in 2015 and 2016 at 11.6 per cent, with both employment and labour force growth similar in both years. Despite an aging workforce, the labour market is expected to be positive within the St. John's area this year and in 2015 and 2016 as people continue to find employment in all sectors, however, the provincial labour market slowdown will have a negative impact the local housing market.

Net migration for the province is expected to turn positive in 2015, due to an increase in interprovincial migration, after two years of declines. Immigration will begin to contribute positively to population growth in

2015 and 2016. The expectation is an addition of 500 people in 2015 and 700 people in 2016, after a decline of close to 300 people this year. This is also tied to the need for outside expertise as the economy begins to focus on new energy and resource investment opportunities. Overall, net migration is expected to be positive within the St. John's area this year and in 2015 and 2016 as people continue to be attracted to the region's healthy labour market and high wages, but not enough to influence housing demand materially.

## Mortgage Rates are Expected to Remain Unchanged until the Latter Months of 2015

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain unchanged until the latter parts of 2015 and then begin to increase gradually. Gradual increases in mortgage rates from historic lows are not expected to significantly impact housing demand.

According to CMHC's base case scenario for 2014, CMHC expects the one-year mortgage rate to be in the 3.00 to 3.25 per cent range, while the five-year rate is forecast to be within the 5.00 to 5.50 per cent range. For 2015, the one-year mortgage rate is expected to be in the 3.20 to 4.00 per cent range, while the five-year rate is forecast to be within the 5.25 to 6.00 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.70 to 4.60 per cent range, while the five-year rate is forecast to be within the 5.55 to 6.45 per cent range.

## Trends at a Glance

| Key Factors and their Effects on Housing Starts | |
|---|---|
| Mortgage Rates | Short-term mortgage rates are expected to remain near historically low levels which will continue to support housing demand over the forecast period. |
| Employment | Employment in St. John's is up 1.5 per cent year-to-date and will remain supportive of the housing market. |
| Income | Average weekly earnings in excess of $1,000 year-to-date represent a record high and have increased well above inflation in recent years. This has resulted in significant real wage growth which will contribute positively to housing demand. |
| Population and Net Migration | Population growth continues to be driven by positive net-migration to the St. John's area will help support demand for housing over the forecast period. |
| Resale Market | With a recent rise in listings MLS® sales will fall slightly below current levels with price growth in line with the rate of inflation. |

## Forecast Risks

- The level of oil production and the price of oil represent the two greatest factors underpinning the local economy. This is also the most significant risk to the forecast in terms of both upside and downside risk potential.
- The current inventory of newly built homes for sale could have a larger than expected negative impact on housing starts for 2015 and 2016, if they are not absorbed at a rate that keeps the current level of inventory stable.
- House price growth since 2007 has led to historically high prices in the St. John's area. If interest rates or unemployment were to increase sharply, heavily indebted households could be forced to liquidate assets, including their homes. This could put downward pressure on house prices and, more generally, on housing market activity.

| Forecast Summary<br>St. John's CMA<br>Fall 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014(F) | % chg | 2015(F) | % chg | 2016(F) | % chg |
| **New Home Market** | | | | | | | | | |
| **Starts:** | | | | | | | | | |
| Single-Detached | 1,304 | 1,292 | 1,243 | 875 | -29.6 | 850 | -2.9 | 900 | 5.9 |
| Multiples | 619 | 861 | 491 | 540 | 10.0 | 595 | 10.2 | 600 | 0.8 |
| Starts - Total | 1,923 | 2,153 | 1,734 | 1,415 | -18.4 | 1,445 | 2.1 | 1,500 | 3.8 |
| **Average Price ($):** | | | | | | | | | |
| Single-Detached | 351,305 | 387,439 | 395,388 | 400,000 | 1.2 | 405,000 | 1.3 | 410,000 | 1.2 |
| **Median Price ($):** | | | | | | | | | |
| Single-Detached | 321,450 | 345,000 | 359,000 | 363,300 | 1.2 | 368,000 | 1.3 | 372,500 | 1.2 |
| New Housing Price Index (% chg) (St. John's) | 4.0 | 0.2 | 1.8 | 1.5 | - | 1.0 | - | 1.0 | - |
| **Resale Market** | | | | | | | | | |
| MLS® Sales | 3,647 | 3,871 | 3,617 | 3,300 | -8.8 | 3,350 | 1.5 | 3,400 | 1.5 |
| MLS® New Listings | 7,073 | 7,284 | 7,284 | 8,620 | 18.3 | 7,950 | -7.8 | 8,050 | 1.3 |
| MLS® Average Price ($) | 268,608 | 285,529 | 301,333 | 313,000 | 3.9 | 317,500 | 1.4 | 322,000 | 1.4 |
| **Rental Market** | | | | | | | | | |
| October Vacancy Rate (%) | 1.3 | 2.8 | 3.2 | 3.5 | 0.3 | 3.8 | 0.3 | 3.9 | 0.1 |
| Two-bedroom Average Rent (October) ($) | 771 | 798 | 864 | 900 | 4.2 | 930 | 3.3 | 955 | 2.7 |
| **Economic Overview** | | | | | | | | | |
| Mortgage Rate (1 year) (%) | 3.52 | 3.17 | 3.08 | 3.00 - 3.25 | - | 3.20 - 4.00 | - | 3.70 - 4.60 | - |
| Mortgage Rate (5 year) (%) | 5.37 | 5.27 | 5.24 | 5.00 - 5.50 | - | 5.25 - 6.00 | - | 5.55 - 6.45 | - |
| Annual Employment Level | 105,400 | 109,200 | 108,000 | 109,500 | 1.4 | 111,500 | 1.8 | 113,500 | 1.8 |
| Employment Growth (%) | 4.5 | 3.6 | -1.1 | 1.4 | - | 1.8 | - | 1.8 | - |
| Unemployment rate (%) | 6.6 | 7.2 | 6.1 | 6.0 | - | 5.9 | - | 5.7 | - |
| Net Migration | 2,911 | 2,818 | 1,995 | 1,900 | -4.8 | 1,950 | 2.6 | 1,950 | 0.0 |

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over

# DEFINITIONS AND METHODOLOGY

## New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

**Single-Detached Start:**
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

**Semi-Detached Start:**
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

**Row (or Townhouse) Start:**
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

**Apartment and other Starts:**
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

**Average and Median Single Detached Home Prices:**
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

**New Home Price Indexes:**
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

## Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

**MLS® (Centris® in the province of Quebec) Sales:**
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

**MLS® (Centris® in the province of Quebec) Average Price:**
Refers to the average annual price of residential transactions through the Multiple Listings Services.

## Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

## Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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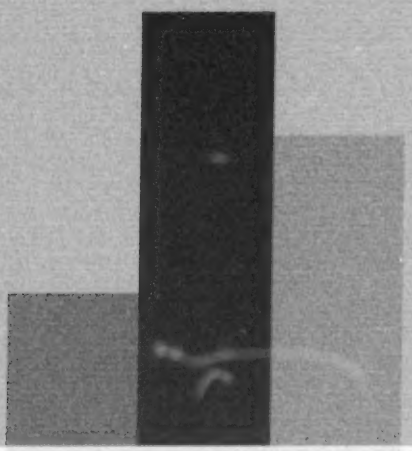

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